Trade Mission to Ghana and South Africa

Opportunities for U.S. Exporters

by ITA Trade Development and
the U.S. Commerce Department's Office of Business Liaison

Recent developments in Ghana and South Africa have created strong markets for U.S. companies. Secretary of Commerce Donald L. Evans will lead a senior-level trade mission to Accra, Ghana, and Johannesburg, South Africa, on November 12–15, 2002. The official delegation will include approximately 15 senior executives of small, medium-sized, and large U.S. firms from several sectors.

The trip (www.doc.gov/africatrademission) will focus on the development of commercial opportunities, which are ensuing from the ongoing market liberalization and privatization in these countries. In both Ghana and South Africa, the U.S. Commercial Service will arrange briefings and business appointments for members of the delegation.

GHANA

Often referred to as a gateway to the continent, Ghana is a hub for commercial activity in western Africa. Ghana should become a middle-income country by 2020, with President Kufuor aiming to institute a "golden age of business."

While a series of external shocks has hit Ghana since 1998, the government (elected in December 2000) has taken steps to attain greater economic stability. Inflation is on the decline, interest rates have edged downward, and the local currency has been more stable. If external markets stay fairly stable, these measures should help to maintain growth.

With $200 million in U.S. merchandise exports in 2001, Ghana is one of America's largest markets in sub-Saharan Africa, and the bilateral commercial relationship between the United States and Ghana is one of the most diverse in the region. Ghana is a beneficiary country under the African Growth and Opportunity Act (AGOA), and its AGOA apparel eligibility provides a firm foundation for stronger trade and investment ties with the United States.

The leading sectors for exports to Ghana include telecommunications equipment, computers and peripherals, pharmaceuticals, electrical power systems, construction and earthmoving equipment, mining equipment, food processing and packaging equipment, and hotel and restaurant equipment.

SOUTH AFRICA

South Africa, with a 2002 GDP forecast of $117 billion, is the largest economy in the region. South Africa has significant growth potential, easy access to other markets in Africa, sophisticated financial institutions, a good communications infrastructure, low labor costs, and inexpensive electrical power and raw materials.

South Africa's pivotal, post-apartheid economic transformation remains sharply focused and widely respected internationally. Since 1994 (when the first democratically elected government came into power), the country has become politically stable with a more open and outwardly oriented economy. Globalization is bringing with it new trade and investment opportunities. South Africa has been one of Africa's leading AGOA beneficiaries.

The primary commercial attraction in South Africa is the size and sophistication of the economy. South Africa accounts for more than 45 percent of sub-Saharan Africa's GDP, and it is by far the United States' largest export market in sub-Saharan Africa. U.S. exports to South Africa totaled $2.9 billion in 2001, accounting for approximately 40 percent of total U.S. exports to the region. In 2001, real GDP growth in South Africa was 2.2 percent.

South Africa's single greatest challenge is to accelerate growth and transform the economy so that prosperity may be shared widely. Across the country, there are about 900 U.S. firms doing business in South Africa, up from approximately 250 in the mid-1990s. Since 1994, the United States has become the largest foreign investor in South Africa.

The best sectors for exports to South Africa include telecommunications, information technology, transportation, energy and power generation, environmental technologies, security and safety equipment, health care products, earthmoving equipment, mining equipment, food processing, packaging equipment, and cosmetics and hair care products.

ENERGY AND POWER GENERATION

South Africa and Ghana represent growing markets in the energy and power generation sectors. Significant offshore exploration activities in South Africa and Ghana are under way and will continue. Opportunities in oil and gas exploration, equipment, and supplies will increase in both countries as well as contracts for power plant design and construction.

Johannesburg, South Africa.

South Africa is a significantly larger market than Ghana, and it represents approximately 50 percent of the African continent's electrical power generation and consumption. South Africa is one of the world's largest coal producers. The country has relied on coal as its biggest fuel source, although it is now shifting toward other fuel sources. Significant refining takes place in South Africa, but less so in Ghana.

U.S. energy and power generation-related exports to Ghana totaled nearly $20 million in 2001, up from approximately $16 million in 1999. Exports to South Africa totaled nearly $169 million in 2001, up from $147 million in 1999.

Ghana and South Africa are attempting to create domestic markets for locally produced natural gas. Pipelines are planned, and progress is expected in the near future. Natural gas is gaining stature in both countries because of its advantage as a locally available resource. South Africa plans to switch from coal to natural gas for its world-class oil production conversion processing. This process currently produces oil from coal but will ultimately produce oil from natural gas.

The Ghanaian government is considering adding additional hydroelectric power generation capacity through construction of dams. Ghana is also considering additional thermal power generation capacity.

U.S. companies have played key roles in Ghana and South Africa's attempts to diversify energy supply through increasing domestic oil and gas exploration efforts. Low foreign exchange reserves create occasional problems for Ghana to import crude oil, driving its desire to rely less on imported energy. Environmental and cost concerns influenced South Africa's decision to switch from coal to natural gas.

MARKET ACCESS/ REGULATORY ISSUES

In recent years, the South African and Ghanaian governments have attempted to create more favorable environments for foreign direct investment (FDI) and to encourage it actively. Promoting FDI is an integral part of the national economic policy of both nations. They are eager for FDI in energy and power generation.

MARKET OPPORTUNITIES

Oil and gas exploration and production activities are under way in both countries, creating opportunities for contractors, equipment suppliers, and services companies. South Africa is developing a real domestic market for natural gas, with future municipal distribution concessions possible. Meanwhile, Ghana is considering new gas-fired plants as well as hydroelectric plants.

Opportunities also exist for U.S. exporters of electrical generators to Ghana, because power reliability, for households and industry, is still not certain. Ghana purchased approximately $10 million in electrical power systems from U.S. exporters in 2001. Opportunities will also arise in Ghana for U.S. companies to compete for engineering and manufacturing contracts for new power generation facilities. Similarly, the South African government plans eventually to privatize most functions of its quasi-governmental electricity company, with the exception of transmission functions.

TRADE DEVELOPMENT CONTACT

Aaron S. Brickman
Office of Energy
Tel: (202) 482-1889
E-mail: Aaron_Brickman@ita.doc.gov

FOOD PROCESSING AND FOOD SERVICE INDUSTRIES

U.S. exports of food processing and packaging equipment to South Africa totaled $7.3 million in 2001. With both the agricultural and pharmaceutical sectors growing, there are opportunities for U.S. companies to make additional inroads in this fast-growing market.

With the spread of supermarkets and other food stores in the metropolitan areas of Ghana, demand has increased for processed foods. There are numerous opportunities for the supply of equipment to canners and bottlers of beer, soft drinks, and juices. Companies are eager to produce more attractive packaging for many consumer food products.

Major imports include fruit, cocoa, vegetable, and beverage processing equipment. Due to the small market, small output capacity is preferable. According to Ghanaian customs, U.S. exports reached $6 million in 2001.

HOTELS AND RESTAURANTS

Construction of new hotels and restaurants to cater to the growing number of tourists and businessmen coming to Ghana is the main factor driving demand. Currently, several major hotels are under construction that will supply an additional 2000 rooms when completed. This should spur demand for commercial refrigerators, ovens, dishwashers, and display cabinets. U.S. exports of hotel and restaurant equipment to Ghana totaled $8 million in 2001.

TRADE DEVELOPMENT CONTACT

John J. Bodson
Office of Machinery
Tel: (202) 482-0681
E-mail: John_Bodson@ita.doc.gov

TELECOMMUNICATIONS TECHNOLOGIES

Ghana has a growing telecommunications market, with annual 2002 service revenues estimated at $400 million and equipment revenues at $200 million. Current teledensity (lines per 100 inhabitants) is 7.6, which is higher than that of most nations in sub-Saharan Africa.

There are four mobile/cellular operators in Ghana, and 14 firms have licenses to provide satellite services. The country has approximately 200,000 mobile subscribers, but only 8,000 dial-up Internet subscribers. Internet access is available in seven secondary cities, and there are numerous cybercafes in Accra and the other cities.

Currently, the government of Ghana owns 70 percent of Ghana Telecom, with Telekom Malaysia owning 30 percent and operating under a management contract that expired last February. The government plans to further divest and terminate the contract with Telekom Malaysia.

Westel Telesystems Ghana, 70 percent privately owned, is the second wireline operator. Westel and Ghana Telecom held a duopoly on international service until recently. The Ministry of Communications has announced plans to open the market to new entrants this year.

REGULATORY ISSUES IN GHANA

The National Communications Authority Act, which took effect in Ghana in 1997, established the National Communications Authority (NCA) to regulate communications by wire, cable, radio, television, satellite, and others means of technology. The NCA is an independent body, although the current minister of communications has been serving as chairman. This has made resolution of disputes among operators problematic, because there is effectively no possibility of appeal. The NCA has also had difficulty in attracting and keeping personnel with strong technical backgrounds.

OPPORTUNITIES IN GHANA

As a result of the government of Ghana's liberalization of the country's telecommunications sector, annual growth has been significant. Imports are mainly for landline projects, private mobile telephone services, and broadband data transfer services. Major imports include switching and transmission equipment, telephones, fax machines, radio and television equipment, and cellular radiotelephones. Electrical cables and telephone wires are produced in Ghana, while other locally sourced telecommunications equipment is assembled in country.

The national network operators have programs under way to meet their performance targets under their licenses. The primary competing countries are Japan, Malaysia, France, and the United Kingdom. Demand is expected to continue to rise as result of a substantial credit received by Ghana Telecom for its expansion program.

SOUTH AFRICA

By far Africa's largest telecommunications market, annual revenues for South Africa's telecommunications services industry are projected to exceed $7 billion in 2002, with the equipment market not far behind at $6.8 billion, and the telecommunications equipment import market at $2.2 billion. Telecommunications analysts predict a growth rate of 14 percent for South Africa's telecommunications infrastructure during the next four years as a result of the sector's liberalization. The country's teledensity is 11.2, with more than 9 million mobile subscribers. There are more than 2.4 million Internet subscribers.

Telkom South Africa, the wireline incumbent, was slated to issue an IPO in 2001. However, market conditions and a prolonged policy process delayed the offering, which is now earmarked for the spring of 2003. The government currently holds 70 percent of Telkom. Telkom enjoyed exclusivity until May of this year, when a second national operator was to be licensed. That process too has been delayed, but it is expected that two state-owned enterprises will form part of the new operator. The new operator will be licensed to provide the full range of public switched telecommunications services now provided by Telkom. The market will be limited to this duopoly at least until 2005.

Several major international equipment producers have offices in South Africa, although none are known to be producing equipment in the country. Mobile handsets, wireline infrastructure, and switching equipment are in greatest demand at this time.

MARKET ACCESS/ REGULATORY ISSUES

The Independent Communications Authority of South Africa (ICASA) regulates telecommunications services and deals with licensing, tariffs, spectrum management, and dispute resolution. Although statutorily independent, the minister of communications has virtual veto power over ICASA rulings. The ICASA is also hampered by resource shortages and poor skills retention. It has issued rulings against the interests of Telkom, but the latter has always opposed them and appealed to the courts. The country's unclear legislative process has also caused uncertainties and discouraged some firms from pursuing business opportunities in the telecommunications sector.

OPPORTUNITIES IN SOUTH AFRICA

A number of companies offer value-added services, but disputes with Telkom have limited the growth of competitive suppliers. Two cellular firms have thriving operations in South Africa, while a third license was granted last year. There are approximately 150 Internet access providers in the country.

The biggest drivers of spending in telecommunications equipment will be infrastructure upgrades by Telkom for its next generation network that will transport voice, data, and video traffic more efficiently than the traditional circuit switched network. The second network operator's system rollout will take place between 2003 and 2005. There will also be a mobile network infrastructure rollout by the third cellular operator. Central to Telkom's procurement policy are efforts to contract with companies or firms with significant black economic empowerment programs.

TRADE DEVELOPMENT CONTACT

Dan Edwards
Office of Telecommunications Technologies
Tel: (202) 482-4331
E-mail: Daniel_Edwards@ita.doc.gov

TRADE MISSION WEB SITE

www.doc.gov/africatrademission